1972

Financing a commercial feedlot in the Great Falls area

Theodore Terrence Hartzell
The University of Montana

FINANCING A COMMERCIAL FEEDLOT
IN THE GREAT FALLS AREA

By

Theodore T. Hartzell

B.A., Portland State College, 1967

Presented in partial fulfillment of the requirements
for the degree of

Master of Business Administration

UNIVERSITY OF MONTANA

1972

Approved by:

Chairman, Board of Examiners

John M. Stewart
Dean, Graduate School

May 10, 1972
Date

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ILLUSTRATIONS

CHAPTER I

INTRODUCTION

Purpose of Study

The purpose of the study is to examine feedlot financing in general. The subject was chosen because it is a growth industry important to Montana. Rising population and per capita income have helped increase beef consumption. Cattle feeding operations have grown large in an effort to realize favorable economies of scale. Large cattle feeding operations require extensive mechanization which requires substantial investment in facilities and other operating costs. Cattle numbers on feedlots of 1,000 head and over, in Montana, increased two and three-quarter times between January 1, 1963 and January 1, 1969, indicating the larger feedlots are having an increasing impact on Montana cattle feeding.[1]

Fed and feeder animals are being shipped out of Montana to be finished elsewhere, resulting in a considerable loss in potential revenue to this area. One reason may be the special financing problems encountered by Montana feeders. A local feedlot was selected to illustrate financing problems.

---

[1] "An Economic Analysis of the Market Factors Affecting Slaughtering and Fresh Meat Marketing in the Great Falls, Montana Area," Transportation Research and Marketing, Littleton, Colorado, April, 1969.

General Problem Setting

"The proportion of financing provided through credit is larger in cattle feeding than in almost any other sector of the agriculture economy." Raymond Doll of the Federal Reserve Bank of Kansas City states five reasons for the extensive use of credit in cattle feeding: 1) relatively large investment per firm, 2) competent and aggressive management in this business, 3) familiarity of financial institutions with financing cattle feeding operations, 4) type of security available for financing this kind of operation, and 5) unusual growth in cattle feeding.[1]

> Changes in beef production have been substantial and rapid during the past half century. Only a few decades ago, most beef animals came directly from the range and had not been grain-fed. Even as late as the early 1950's, only about one-third of all cattle were grain-fed prior to slaughter. Additionally, grain feeding tended to be a highly seasonal operation, so the supplies of grain-fed beef available varied substantially through the year. Now, about two-thirds of all cattle slaughtered are grain-fed, and seasonal variation in fed-beef supplies is much reduced.[2]

Changes in the industry are having a sharp impact on the institutions financing beef production.[3] The number of feedlots is dropping due to attrition in the under 1,000 head capacity lots, as shown in Table 1.

---

[1]Raymond J. Doll, "Cattle Feeding in the Tenth District: Financing," Monthly Review, Federal Reserve Bank of Kansas City, July-August 1970, p. 11.

[2]Raymond J. Doll and Blaine W. Bickel, "Economic Growth and the Beef Industry," Monthly Review, Federal Reserve Bank of Kansas City, February 1970, p. 9.

[3]Doll, "Cattle Feeding in the Tenth District: Financing," p. 11.

TABLE 1

MONTANA CATTLE FEEDLOTS BY SIZE AND
CATTLE MARKETED, 1962-1968

	Feedlot Capacity					
	Less than 1,000 Head		1,000 Head and Over		All Feedlots	
Year	Number of Lots	Cattle Marketed	Number of Lots	Cattle Marketed	Number of Lots	Cattle Marketed
1962	580	62,000	20	38,000	600	100,000
1963	576	55,000	24	43,000	600	98,000
1964	575	72,000	25	56,000	600	128,000
1965	574	---	26	---	600	141,000
1966	566	---	34	---	600	178,000
1967	461	54,000	39	110,000	500	164,000
1968	459	54,000	41	103,000	500	157,000
1969	415	70,000	55	107,000	470	177,000

Source: Maurice C. Taylor, Associate Professor, Department of Agricultural Economics and Economics, Montana State University, Bozeman, Montana, "Changes in Structure of Montana Cattle Feeding Industry."

Note:
The actual number of lots should be viewed with caution. These numbers are obtained by sample and should be considered as approximations. Most of the "error," however, is in the number of small lots. The number of large lots is fairly accurate.

Loan limit difficulties and availability of credit are greater problems for today's technically-oriented cattle feeding operation than ever before. Today's cattle feeding business often needs financing from several sources because most rural institutions cannot finance such operations alone.[1]

Stages in the Production of Beef Today

There are three basic stages in the production of beef today: 1) the cowman produces calves, 2) another producer puts cheap roughage gains on these calves, carrying them to 600-700 pounds, and 3) the commercial feedlot operator finishes the animals to grade. Greater resources and knowledge are needed for the last production stage.[2] The commercial feeder must accomodate larger cattle populations. These require substantial physical plants, expensive machinery and successful feeding technology since individual care is impossible.

Types of Feedlots

There are basically three types of feedlots: 1) the farmer feeder that finishes a few head of cattle (usually less than 50) to complement his otherwise seasonal operation and gain a better market for his feed products, 2) the commercial feedlot that strictly contracts its services and owns none of its own cattle, and 3) the feedlot that owns its own cattle and finishes them. Feedlots are often a mixture of types two and three as operators generally do not have the financial backing to both own and operate

---

[1] Doll, "Cattle Feeding in the Tenth District: Financing," p. 12.

[2] Doll and Bickel, "Economic Growth and the Beef Industry," p. 9.

the physical plant and also buy enough cattle to realize economies of scale. The two major sources of credit for financing the cattle industry are commercial banks and Production Credit Associations, with commercial banks the more important of the two.[1]

How Commercial Feeding Has Grown

Commercial feeding has stimulated growth in cattle feeding because it allows individual breeders to profitably fatten cattle without purchasing the equipment, facilities, and land necessary to operate a feedlot. On the other hand it allows feedlots to operate without purchasing cattle. The commercial feedlot operation allows the capitalization of feeder animals and operation to be separated in more financable portions. This has the effect of placing the financial burden on a broader base and the risk on a greater number of financial intermediaries.[2]

In the early stages of development, most United States' resources were utilized for agricultural production. However, the nonfarm economy grew much faster than the farm economy. Substantial amounts of labor and some land were released from the farm sectors and transferred to nonfarm uses. Machines replaced labor and land, making financing the now technically oriented farms increasingly important.

---

[1] Doll, "Cattle Feeding in the Tenth District: Financing," p. 15.

[2] "Financing the Cattle Feeding Industry in the High Plains," Business Review, Federal Reserve Bank of Dallas, September, 1969, p. 6.

> The resource shifts that have been occurring between the agricultural and nonagricultural sectors of the economy have posed sharp adjustment problems for the agricultural industry. Shifts in kinds and quantities of resources needed to produce specific agricultural products and shifts in demand for various products have occurred often and rapidly--taxing the adjustment capabilities of farmers and farm communities.[1]

Much of today's expansion in the cattle feeding industry was found to be occurring in large lots that feed cattle commercially for others. (The commercial feeders contract their services to put varying degrees of finish on other cattlemen's animals.) Commercial feeding required great capital investment usually obtained through some form of credit: individuals, commercial banks, Federal Land Banks, Production Credit Associations (PCA's), Small Business Administration, or life insurance companies.[2] Both short-term and long-term credit is needed.

> The need to assemble large amounts of resources under the control of one management in order to utilize advances in technology is being achieved in a number of ways. Corporate farming, leasing of land from a number of owners, arrangements where some land is owned and some is leased, and the combination of land ownership and hiring of custom service for major operations are all increasingly important. Arrangements vary with individual circumstances. Availability of credit is one of many factors affecting individual decisions.[3]

---

[1]Doll and Bickel, "Economic Growth and the Beef Industry," p. 3.

[2]Doll, "Cattle Feeding in the Tenth District: Financing," p. 13.

[3]"Farm Finance in a Period of High Interest Rates," Business Conditions, Federal Reserve Bank of Chicago, March 1970, p. 16.

Importance of the Industry

The cattle industry is large and diverse with animals produced on nearly three-fourths of the nation's three million farms. The production cycle on individual farms may encompass only a few months of specialized feeding or the entire range of breeding herds to fattening animals destined for slaughter. Cattle and calf sales in 1968 exceeded eleven billion dollars and accounted for about one-fourth of farmers' gross receipts.[1]

The rising demand for meat, and beef in particular, is a long established trend characteristic of an economy that provides rising income for a growing population, as illustrated in Figure 1. Per capita beef consumption climbed from less than fifty pounds per person in the early 1950's to about 109 pounds in 1968, as shown in Table 2.

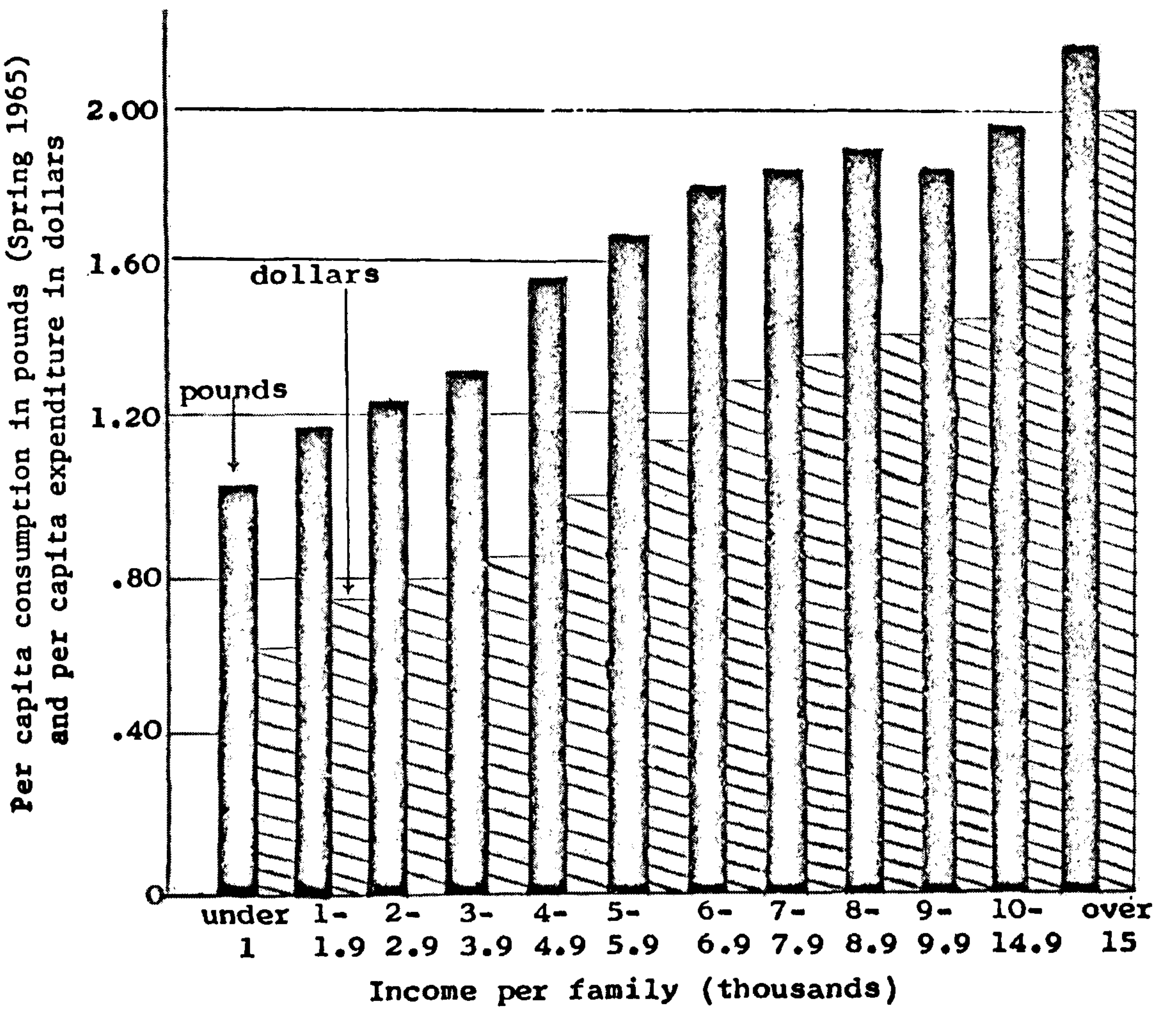
The demand for beef is certain to increase as the two major factors stimulating demand--population and income--increase.[2] The Federal Reserve Bank of Chicago indicated that beef production would have to increase substantially to accommodate even a modest increase in beef consumption per person in the next ten years.[3]

---

[1] "Developments in the Cattle Industry," Business Conditions, Federal Reserve Bank of Chicago, October, 1969, p. 12.

[2] Business Conditions, October, 1969, p. 14.

[3] Business Conditions, October, 1969, p. 15.



Source: Business Conditions, October 1969, p. 13

Fig. 1.--Beef Consumption Rises with Income

TABLE 2

PER CAPITA MEAT CONSUMPTION
(In Pounds)

Year	Beef	Total Red Meats
1950	63.4	144.6
1951	56.1	138.0
1952	62.2	146.0
1953	77.6	155.3
1954	80.1	154.7
1955	82.0	162.8
1956	85.4	166.7
1957	84.6	158.7
1958	80.5	151.6
1959	81.4	159.5
1960	85.0	160.8
1961	87.7	160.4
1962	88.8	163.0
1963	94.3	169.3
1964	99.8	174.5
1965	99.3	166.7
1966	104.0	170.5
1967	105.9	177.5
1968	109.4	182.7
1969	110.7	182.1

Source: Monthly Review, February 1970, p. 4.

The trend toward fewer but larger feedlots producing more beef indicates increased capitalization resulting in greater financial requirements. Financing beef production promises to be increasingly important to maintain adequate supply to meet the rising demand. In some areas, for instance the High Plains, the demand for funds by the cattle feeding industry has increased faster than the supply of funds, causing many feeders to operate at a reduced capacity.[1] However, local bankers indicate that no such shortage exists in the local Great Falls area.

> Growth in the industry, combined with the impact of changing technology, is influencing both the amount of credit and kinds of financing required. Commercial banks and other credit sources in many parts of the Nation are being confronted with new types of problems in financing these different stages of cattle production. Furthermore, many related businesses, such as the packing industry, are also being developed or relocated. These changes are having a noticeable impact on economic growth in many areas and on financing institutions serving these areas.[2]

Historical Background

United States' colonial independence brought trade and industry and a profitable market for good beef developed in Baltimore and other cities along the East Coast. Seeking the areas of least costly production, cattle were moved westward for grazing and then returned to the more settled farming areas for

---

[1] "Financing the Cattle Feeding Industry in the High Plains," Business Review, Federal Reserve Bank of Dallas, September, 1969, p. 8.

[2] "Economic Growth and the Beef Industry," Monthly Review, Federal Reserve Bank of Kansas City, February, 1970, p. 10.

fattening. Cattle production changed from the old method of individual care and pampering to outdoor lots containing twenty or more cattle and thus volume production was started.[1]

Eastern and foreign capital was attracted to the cattle business' profit potential. Feed was available from the public domain and American beef on the European market amid the profit stories from cattle investors turned other investors into this new field.[2]

Feed scarcity, severe winters, and floods in 1886 and 1887 caused an 85 percent herd loss. A severe depression produced chaos for the cattle industry. From this adversity and chaos came a sounder industry.

Cattlemen began financing their ranches more conservatively, producing sufficient feed to carry stock through the winter and limiting cattle to meet range limitations. The introduction of large packing plants at terminal points enabled cattlemen to ship their feeder cattle to be sold in the Corn Belt. Banks located at packing points provided the cattlemen a source of financing.

Availability of credit became an important factor since purchasing large numbers of feeder cattle necessitated substantial borrowing. Many feeders still could not obtain financing in

---

[1]Kenneth Mortag, "The Cattle Feeding Industry in Montana," Montana Bank, Great Falls, Montana, March, 1962, p. 12.

[2]Daniel S. Osgood, "The Age of the Cattlemen," March, 1957, pp. 98-101.

recession periods. The Corn Belt area banks became increasingly involved in feeder cattle financing since feeding cattle was a highly seasonal operation requiring seasonal financing.

The competitive nature of the beef production industry has introduced many innovations permitting better beef production, better adaptation to consumer wants, and increased efficiency. Latest developments brought on by new technology, specific resource requirements in the different production stages, and economies of scale have forced specialization in the fed beef industry.[1]

The efficiencies of today's large size feeding operations are certain to extend the larger feedlot trend, thus the dollar need.

---

[1]Monthly Review, February, 1970, p. 9.

CHAPTER II

MANAGEMENT OF A FEEDLOT AND RESOURCE AVAILABILITY

Management

A review of the literature and interviews with bankers revealed several points on financing a feeder loan. Ability, experience, and the past record of the feeder must reflect managerial and operational acumen, (Appendix I). As a banker evaluated feedlot operation, the importance of good farm management was considered obvious. It included an ability to use borrowed funds and meet a repayment schedule and to use the funds to make the feedlot business grow. A good manager started with good housekeeping practices. Good management was also reflected in the way an individual planned for the future. The good manager always has a goal that he was trying to reach. He never reaches the goal because he revised it and expanded it continually. The banker considered the main points of good management practices to be the ability to plan ahead, to evaluate enterprises and to keep adequate records in order to determine the highest probable returns. Many feeders continue low efficiency practices from year to year because they have never taken time to figure their costs and returns on each enterprise.

A good manager should increase his income each year enough to keep up with the approximately four percent inflation the nation has experienced for the past several years. A six percent increase in real income per year is a realistic goal, thus gross income should increase by ten percent per year.

Resources

The feedlot plant and the facilities must be adequate. Physical plants continue to grow to take advantage of economies of scale. Large farm machinery purchases are made to increase farm labor productivity thus permitting growth and the realization of economies of scale. Mechanization allows greater profits through more efficient use of labor although it requires substantial investment in facilities and causes increasing operating costs adding to credit requirements. A banker observing a feedlot plant either sees efficiency indicating good return on investment or he sees inefficiency caused by poor plant design, overcrowded feeders or outdated, inadequate machinery.

The feedlot plant operator must have available a suitable feed supply and a supply of feeder cattle. Of course certain feed products produce faster, more efficient gains. Also, feeder animals respond in different ways to the several kinds of feed available whether they be steers, cows, heifers, steer calves, heifer calves or bulls. A feed that produces good gains on one may not do as well on another. The cost of feed harvested and transportation costs to the feed plant determine geographical suitability. Good records on gain are very important to determine the costs of different feed programs. Thus, good records in turn, make credit easier to obtain.

The credit applicant's financial responsibility should be adequate to insure continuous operation even during declining prices or other unfavorable circumstances. Provisions must be made to allow for changes in market conditions that may effect the profitability of a feedlot operation. Other costs such as obtaining additional collateral to retain financial responsibility and to insure safety of the loan for the lender may be required. Many feeders have no real estate indebtedness and, if they do, their land equity is so large that if anything went wrong with the feeding program, they could refinance the real estate for a longer term payment period. It is important that the feedlot operator have as much at stake in the operation as does the financial intermediary. When unfavorable conditions occur, it is important that the lender not have to take responsibility of the business to protect his original investment. This does occur, however.

It is imperative that a borrower determine the lender's policies, plans, or potential plans before making a feeder loan. An agreement must be made ahead of time for each possible contingency so that no financially embarrassing interruption will occur in financial service due to a lack of understanding on the part of either party. This is why it is extremely important that the bank owners have an experienced agricultural man who understands the problems and pitfalls of cattle feeding. An experienced banker is more likely to prevent termination of the credit line due to inadequate feedlot planning or unexpected contingencies. It is important that a borrower select a lender who he trusts and who understands his problems.

Suitability of the Great Falls Area For a Feedlot Industry

Feeder cattle and feed supplies are adequate to increase cattle feeding by more than 700 percent above present feeding levels.[1] The Montana feeder has distinct advantages in local markets over feeders in other parts of the country. Montana grains are historically the cheapest and exhibit distinct advantages over corn and soybean oil meal. Montana feeders have experienced less death losses. There is available to Montana feeders, waste roughage resulting from farming operations. Such roughage is not transportable at reasonable cost and is lost if not utilized at its source. Types of cattle produced in Montana are well suited to feeding operations.[2]

Due to expanding per capita meat consumption and population growth on the West Coast, adequate markets for Montana processed meat already exist. Montana has a surplus of labor. Establishment of training centers would assure adequately trained personnel to man additional facilities.[3]

Due to the relatively short time commercial feedlots have been in existence in Montana and the rapid changes in these

---

[1]Leslie E. Chalmers, "Economic Significance of a Vertically Integrated Cattle Feeding, Slaughter and Marketing Cooperative for Montana," PhD, Agricultural Economist, Bozeman, Montana, 1969, p. 30.

[2]*Ibid*. p. 27.

[3]*Ibid*. p. 30.

operations (attrition among smaller and growth in larger feedlots) returns on investment have been widely varied. Labor management returns per hundred-weight in a Kansas survey of feeders averaged 3.58 percent with a high of 8.27 percent and a low of minus .91 percent.[1]

Disposal of waste products is not a problem in Montana. An estimated $30.00 for each animal is added if waste is used. Feedlots are situated in widely dispersed agricultural areas where waste can be utilized by returning the solids to the land in proper amounts to assure maximum crop production. Manure has to be cleaned from the feedlot area and hauled somewhere. This adds little to the overall cost of the cleaning operation and adds to overall productivity of the land. However, air pollution, dusts, odors, and ammonia constitute an unsolved environmental problem.[2]

---

[1]Doanes Agricultural Report, "Livestock Management," December 24, 1971, p. 20.

[2]Leslie E. Chalmers, "Economic Significance of a Vertically Integrated Cattle Feeding, Slaughter and Marketing Cooperative for Montana," PhD, Agricultural Economist, Bozeman, Montana, 1969, p. 23.

CHAPTER III

A GENERAL GUIDE TO FINANCING A COMMERCIAL FEEDLOT

Feedlot Credit Requirements

The substitution of capital for labor has been rapid in cattle feeding. Increased capital input requirements and a general uptrend in land values has intensified the problems of acquiring adequate capital. Most rural financial intermediaries cannot finance large operations alone so that much of today's cattle feeding business needs assistance from other financial institutions. (Appendix I)

"It's not unusual for a large feedlot to have a continuous line of credit running as high as $1 million, with actual borrowings varying only slightly as a result of repayments and new advances."[1] Most commercial banks cannot finance such operations without participation with a city correspondent because of legal loan limits. P.C.A.'s, though not confronted with the specific loan limits, are reluctant to put a major portion of their resources into any individual operation.

Commercial banks provide most institutional credit to feedlots but their importance is shrinking relative to P.C.A.'s. The shift is due to differences in lending practices and

[1] Business Review, September, 1969, p. 7.

institutional arrangements.[1] Falling beef prices make cattle loans bad risks. Unencumbered by usury laws, P.C.A.'s can meet feeders' financial needs. When private firms are voluntarily abandoning farm loans in favor of more profitable investments, P.C.A.'s, dedicated to providing financing to agriculture, provide credit needs.

A 1966-67 study by Ronnie L. Burks, Agricultural Economist, Marketing Economic Division, United States Department of Agriculture, showed that 84 percent of the feedlots in a representative sampling obtained their capital for fixed investments from commercial banks, 10 percent from other sources and only six percent from P.C.A.'s. Of 141 feedlot operators, 88 percent depended on commercial banks for operating capital. P.C.A.'s were used by relatively more feedlots for operating capital than for fixed investment financing. Only three percent used other agencies for operating capital financing.[2]

Feedlot credit requirements have increased due to the general trend toward larger feedlots brought on by cost saving mechanization devices such as precision feed mills and self-unloading feed trucks, (advantages in economies of scale, division of labor and bargaining power which are endogenous to large feedlot operations). Loans for farm real estate purchases are the largest size loans. Loans for operating expenses were relatively small.

---

[1]"Characteristics of Beef Cattle Feedlots in California, Colorado, and Western Corn Belt," Marketing Research Report #840, p. 39.

[2]Marketing Research Report #840, p. 37.

A commercial feedlot, like most businesses, requires two kinds of financing, fixed cost financing and variable or operating cost financing. Fixed cost is only a small proportion of total annual expenses for the average size non-commercial feedlot. A 10,000 head capacity feedlot requires an annual operating outlay of over $6 million, it would cost approximately half a million dollars to build such a feedlot, including cost of land, feeding pens, water systems, and other equipment. Most cattle are fed four to five months reducing the one-time operating cost to less than $3 million. Continuous operating credit requirements would average only $500,000 since cattle are fed and marketed on a staggered basis. This is in a situation where 70 percent of all operating costs are financed and placements and marketing occur at one-month intervals.[1] (Table 3.)

The major portion of operating cost ($4.5 million for feeders) is not required for a commercial type feedlot since feeder cattle would not be included as operating costs. This dramatically illustrates one obvious advantage in financing a commercial feedlot over a non-commercial feedlot.

---

[1] Business Review, September, 1969, p. 4.

TABLE 3

INVESTMENT AND OPERATING COSTS OF
A TYPICAL HIGH PLAINS FEEDLOT
WITH 10,000-HEAD CAPACITY

(Based on conditions as of January 1, 1969)

Item	Amount
Fixed investment	
Land	$ 60,000
Feed mill	187,774
Trench silo	11,000
Tractor, wagons, loader	14,000
Office	16,000
2 feed trucks with electrical scales	22,000
80 pens, roads, work alleys	140,000
Sick pens and equipment	10,000
Receiving and treating	7,000
Loading chutes	2,000
Water system and well	30,000
Scales	10,000
Total fixed investment	$ 509,774
Annual operating costs	
25,000 feeders	$4,500,000
12 months' supply of milo	1,127,520
12 months' supply of silage	179,424
12 men (salary)	72,000
2 bookkeepers (salary)	7,200
1 general manager	15,000
Utilities	12,000
Gas and oil	10,800
Repairs	9,600
Taxes	7,200
Interest	70,607
Total operating capital	$6,011,351

Source: Business Review, September 1969, p. 4.

Operating Expenses

The amount of funds needed for financing feed inventories and operating expenses for a commercial feedlot was relatively small. However, the security available for this type loan, often feed, was frequently less tangible to lenders than a chattle mortgage on cattle or facilities. Financing feed inventories and operating expenses was provided by banks, P.C.A.'s and individuals. Terms and conditions varied widely among banks and customers within a bank. Feedlot operators with strong financial statements can obtain financing by offering feed as security and renewing the credit line each six months. Feedlots with weaker financial statements received financing up to 80 percent of the cost of feed with a pledge of accounts receivable specifying that a list of such accounts be provided by-weekly and that credit lines be reviewed every 30 days. P.C.A.'s also usually accepted the feed as security.[1]

Fixed Expenses

The main sources of credit for financing the real estate and equipment investment were individuals, commercial banks, Federal Land Banks, Production Credit Associations (P.C.A.'s), the Small Business Administration (S.B.A.), and life insurance companies.[2]

---

[1] *Monthly Review*, July-August, 1970, p. 15.

[2] *Monthly Review*, July-August, 1970, p. 13.

Sources of Loanable Funds

Banks

Many country banks will probably find it difficult to attract sufficient deposits to meet growth in farm credit requirements. It may not be feasible for many small country banks to increase their maximum loan limit to accommodate their larger farm customers. Outside assistance through correspondent banking is adequately accommodating large size and volume in agricultural loans.[1]

The amount of credit required by most individual feeders has risen, reflecting changes in size and feeder operations. Many banks have not raised their capital, and thereby their maximum loan size. Aggregate loan demand is up but more important, the size of the individual loans has outgrown the maximum credit local banks can extend to individual borrowers. National banks cannot generally extend credit to anyone in amounts exceeding ten percent of their capital and surplus, and state banks usually cannot loan more than 20 percent of capital and surplus to individual customers. Because many rural bankers are relatively small, funds that may be lent to an individual are severely restricted.

Banks seek funds from outside sources in an attempt to obtain additional financing for feedlot operations. The major source of these funds is other banks. Loan participation

---

[1] "Banks and PCA's--a Comparison," Farm Borrowing in the Midwest, Federal Reserve Bank of Chicago, 1966, p. 31.

agreements between banks are the primary means of obtaining additional funds from other banks. Some banks obtain assistance from insurance companies, or agricultural credit corporations.[1] Some banks have worked out an arrangement whereby a consortium handles such lines or overline loans.

In addition to the capital limitation, banks are hampered in their effectiveness since they are often too general, due to their dealings with all credit needs, and are thus relatively unfamiliar with feedlot operations. Banks are restricted by usury laws and they often have low capital and surplus accounts.[2] Banks must also keep part of their assets in liquid form since they provide depository services.

Production Credit Associations

P.C.A.'s have only one function, which is providing credit to farmers. In this capacity, the P.C.A. managers are more familiar with feedlot specific problems. They can often develop information about borrowers through farm records and visits to feedlot units allowing a better understanding of credit needs and repayment capabilities. This comprehensive knowledge allows P.C.A. managers to make larger loans more in line with those being requested by larger feedlots.[3]

---

[1] Robert E. Knight, "Correspondent Banking," Monthly Review, Federal Reserve Bank of Kansas City, December, 1970, p. 13.

[2] Monthly Review, July-August, 1970, p. 16.

[3] John A. Prestbo, "The Ever-Growing Farm Credit System," The Wall Street Journal, Tuesday, November 3, 1970, p. 12.

P.C.A.'s gain funds from the money market by selling debentures through Federal Intermediate Credit Banks (FICB).[1] The FICB has worked out a risk sharing plan whereby potential losses on large loans are shared proportionately by the P.C.A.'s which are members of the plan. In this manner no individual association will be unduly impaired.[2]

Small Business Administration

When loans cannot be made through traditional channels, the Small Business Administration may become active. When financing is not otherwise available on reasonable terms, the S.B.A. may guarantee bank loans to the operator for facilities or working capital.[3] This type of loan is only available to commercial feeding operations for plant and equipment or working capital and the S.B.A. cannot make loans for financing cattle to go into a feedlot. Commercial banks work with their eligible customers in obtaining S.B.A. financing on a participation basis since S.B.A. prefers local bank participation in all of its loan programs. S.B.A. can make some loans for up to 30 years to a local development company for land and physical facilities. Maturities are usually for five years or longer and 15 year maturities are common.[4]

---

[1] Farm Borrowing in the Midwest, p. 29.

[2] Monthly Review, July-August, 1970, p. 16.

[3] "Small Business Loans," Bulletin, Small Business Administration, Office of Public Information, October, 1969.

[4] Monthly Review, July-August, 1970, p. 14.

CHAPTER IV

(X) CATTLE COMPANY'S FINANCING DIFFICULTIES

The Research Problem

An illustration of the research problem, general feedlot financing peculiarities, is provided by analyzing of the operation of a local feedlot.

Objectives

1. To determine if recent (X) Cattle Company financing problems resulted from:

   A. Financial intermediary problems

   (1) lack of financing
   (2) restrictions on the finance industry
   (3) internal or external restrictions

   B. (X) Cattle Company financing unacceptability because of:

   (1) management
   (2) poor assets
   (3) fed beef industry conditions

2. To provide a general guide to commercial feedlots in understanding intermediary lending requirements placed on feedlot financing and possible steps that can be taken to make commercial feedlot operations generally more financable.

Hypothesis

The (X) Cattle Company operation is a financable commercial feedlot operation. Recent financing problems experienced by the operation were due to intermediary problems and were not related to conditions controlled by the feedlot's management.

Procedure

1. Interview the bank providing the financing when that financing was discontinued to determine why this action was taken.
2. Interview the bank refinancing this feedlot operation to determine why it did refinance.
3. Isolate financing problems in this operation by interviews to provide a guide for obtaining financing for other feedlots and isolating potential similar problems in other feedlots by reviewing the literature.

Findings

The financial difficulties of the (X) Cattle Company were precipitated by the untimely death of the president. The banker assured the (X) Cattle Company that there would be no interruption of financial backing. Several months later this earlier decision was reversed and the (X) Cattle Company was advised that the bank no longer could finance it. After interim operating capital was established through another bank, a feedlot appraisal was made by two recognized feeding experts. (Appendix I) This appraisal showed the feedlot to be a viable business although important changes were recommended. The feedlot appraisers confronted the original bank with their computation. The credit line was re-established after the bank reviewed the appraiser's figures.

During an interview, three basic questions were asked the banker who carried the original feedlot loan.

1. Was your reappraisal due to a change in management, financial climate, your bank, or in the feedlot industry itself?
2. What effect did the feedlot appraisal have on you?
3. Why did you not initiate an S.B.A. loan?

In response to Question one, " Was your reappraisal due to the change in management?" the following response was given:

> "The death of one of the managers did cause us to re-evaluate the loan. However, there were questions all along concerning the viability of this operation. As it happened, the additional earning power of the deceased manager had contributed greatly to the earning capability of the feedlot and thus the security of this loan. Without this additional earning power, added the relative inexperience of remaining management and an inconsistant profit picture, there were just too many unknowns and the loan was terminated."
>
> "Management simply did not have enough of their own capital invested in the operation. This is very basic in managing our loan portfolio that a business

> have at least as much at stake in its successful operation as we do. We did not feel this was the case with the (X) Cattle Company."

Also under Question one, "Was your reappraisal due to a change in the financial climate?" was answered:

> "We never use financial climate as an excuse for refusing financing. We can always get the money somewhere--through correspondent banks, for instance. Also, banks in the Great Falls area were never particularly pressed for funds. The fact that this operation is so under-capitalized and such high risk is involved would have made a correspondent loan difficult to obtain even if we had decided to maintain the loan."

"Was your reappraisal due to a change in your bank?" was answered:

> "There were no changes in this bank that would have affected the decision for termination of the financing of (X) Cattle Company."

To the final portion of Question one, "Was your reappraisal due to a change in the feedlot industry?" the banker answered:

> "Although the feedlot industry is relatively new to this area, it has good potential. Every ingredient necessary for a viable feedlot industry is present in Great Falls. In fact, feeder animals and feed are shipped out of state in sufficient quantities to be maintaining a much greater feedlot industry in the state. Montanans are

losing much by exporting the raw materials in feeders and feed and then importing the finished products--meat and meat products."

Question two was phrased, "What affect did the feedlot appraisal have on your decision to terminate financing?" and produced the following comment:

"There were a lot of changes made by following suggestions in the feedlot appraisal. The problem of unseasoned management is solved since in reality the feedlot operation will follow the management outlined in the appraisal. There were considerably less credit requirements in the custom feeding operation as opposed to feeding the (X) Cattle Company's own cattle. By retaining experienced cattle feeders and following their suggestions as outlined in the appraisal and future correspondence, many unknowns are eliminated. We would now have a sound basis for providing financing since there are some tangible, concrete and acceptable plans and goals."

Question three was, "Why did you not initiate an S.B.A. loan?" and brought the candid observation:

"I don't know that we ever considered it and I don't know why. An S.B.A. loan might make it."

In search of funds, another bank was contacted. This other bank provided emergency operating capital and initiated an S.B.A. loan application. In an interview with the banker that initiated the S.B.A. loan, the banker was asked why he had initiated the loan. "It was simply a matter of request on the part of the (X) Cattle Company and compliance on my part." he said. "Then there is the business side of it--an S.B.A. loan is good in our portfolio and it helps the local economy by preventing an otherwise viable company from dying from lack of capital."

"In general a loan applicant must be of good character and show ability to operate his business successfully. He must have enough capital in an existing firm so that, with an S.B.A. loan, he can operate on a sound financial basis. The applicant must show the proposed loan is of sound value and show that the past earnings record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of profits. He must also be able to provide approximately half of total required funds if the venture is a new business."

"I believe the recent appraisal of the (X) Cattle Company shows that it meets these qualifications."

"By law, the S.B.A. cannot make a loan if a business can obtain funds from a bank or other private source. The recent termination of financing by a local bank satisfies this requirement. The company has been declared eligible for a S.B.A. loan. We may now only work for the acceptance of the loan by them."

The original banker stated that he felt the feedlot company was viable but he was not willing to go as far as initiating a S.B.A. loan. He says that there was no request to do so, but the new president of the business says otherwise. The fact that the feedlot appraisal showed a viable business with a few changes and the fact that the bank re-established financing after its presentation indicates that some mistake was made.

A more experienced manager of the bank's agriculture division could have required proper preparation on the part of this business for the possible death of its president. After this untimely contingency occurred, a more feedlot oriented banker would have done more to keep the business operating without interruption. Had the one man operation been more adequately prepared with analyses showing business projections, perhaps the banker would not have had to take such a pessimistic attitude toward the company.

CHAPTER V

CONCLUSIONS

Beef is by far the most important agricultural commodity produced in the United States--accounting for approximately a fourth of all cash receipts from farm marketings. It is relatively even more important in Montana since there has been an outmigration of labor. New industries are needed to provide local employment opportunities.

Montana has the feed and feeders available and the ability to combine these, thus developing a new source of income for the state. The economic impact of the industry will be spread throughout the entire area, bringing increased business, increased tax base, and increased opportunity for continued growth.

Montana will become increasingly important as a feedlot area because its relatively low rainfall and runoff characteristics leave major water sources unpolluted. Montana is a relatively unpopulated area making air pollution a lesser problem since feedlots can be located away from population centers.

Financing has been one problem faced by the relatively new commercial feeding industry due to heavy debt equity ratios, unfamiliarity of financial institutions with the feeding industry, large investment per firm and lack of adequate security for feeder loans.

As feedlots become larger, commercial feeding will undoubtedly be used more widely as a means of shifting risk. The major effect of commercial feeding on financial arrangements is to reduce the size of individual loans.

The following points should be emphasized when financing a feeder loan: a) ability, experience, and past record of the feeder, b) the adequacy of his plant and other facilities, c) the availability of his plant to feeders and a suitable feed supply, d) the applicant's financial responsibility, e) sufficient margin to accommodate contingencies, f) bank's policies and plans in making feeder loans, and g) bank's agricultural specialist's qualifications.

The (X) Cattle Company discovered the hard way the effects of losing its autonomy. At this point it lost its decision-making power. The original banker felt that there were too many unknowns in the operation to continue financial backing. A banker, due to concern for the survival of his own business, must limit risk through limiting the unknowns associated with any creditor.

A one man operation can survive and prosper, but when the operation loses that man, all his plans and projections must be known by successors so that the business can go on as a viable enterprise. The practice of maintaining proper records and projections is essential because a banker needs consistent reassurance that his investment is being protected. In this case unknowns brought on by the untimely death of the company president caused the banker to need even greater reassurance. Until the feedlot appraisal was made by accepted feedlot experts, there was not that assurance. However, self-interest should have led this banker to indicate at an earlier date, weak areas and problems in (X) Cattle Company's financial picture. The banker did not insure that this operation was prepared for this management change contingency.

Suggested Future Research

An additional area for future research pertains to the policies of lending agencies from which feedlots obtain capital. It is suggested that differences in the policies of lending agencies may be important in explaining structure, conduct, and performance common to feeding regions.

APPENDIX I

A MANAGEMENT AND FINANCIAL STUDY

by

Prairie Animal Breeding Enterprises, Ltd.
in Association with
Dr. William Burkitt, Consulting Nutritionist

November 10, 1970

INTRODUCTION

Cattle feeding is a business requiring a high degree of management skill to yield a consistent profit. The skills must include due attention to least-cost, high performance rations, timely purchasing of ingredients at minimum prices for guaranteed quality, accurate ration formulation on site to insure anticipated results, sound feeding practices and health control, shrewd marketing and appropriate pricing of essential services. It is important that all elements be effectively integrated if the business is to yield efficient results, successful customers and long term profits to the owners.

It is logical that a business take "time out" periodically to examine itself, to identify its strength and shortcomings. (X) Cattle Company is now engaged in this kind of self examination. This study was proposed by a friend and business associate with full agreement by the owners. It was brought on in part by the unfortunate death of an owner, and the uncertainty that followed during the ensuing months. The financial position of the (X) Cattle Company became more precarious because the fixed costs of operation including bank loans continued, in the face of reduced income. In entering this succeeding year of operations, the need for new planning was more critical because of the increased debt load and increasing competition among custom feedlots in the Great Falls area.

In preparing this study, the (X) Cattle Company was visited by Dr. William Burkitt, Lloyd Schmitt and Lavon Sumption. The experience figures of the company have been freely shared. Full cooperation has been given in answering questions on all matters. The basic plan was to examine the business carefully, provide a general appraisal of the apparent loan value of the property, examine past feeding practices including custom feeding contracts, propose alternative feeding programs that would provide earnings for an optimum or maximum part of the year, compare the probably net profit and cash flow analysis of each alternative. Finally, the consultants believed it was their obligation to offer a set of recommendations to the owners growing out of this study whether the final analysis was positive or negative.

PABE, Ltd. has determined the accuracy of the values in the study (e.g. feed prices, land values, feed-grain ratios, cattle performance figures) to the best of its ability. PABE, Ltd. assumes no responsibility for the fact that the conclusions from this study would change substantially with changes in market prices for feed and/or cattle, weather or disease conditions or management performance of the (X) Cattle Company. Nor does either PABE, Ltd. or Dr. Burkitt assume any liability for the failure of the (X) Cattle Company to achieve the cattle or financial performance projected in this study. However, in our opinion, the results described can be achieved, based on past industry experience.

Current Resources

The following appraisal of the company's resources is presented as a basis of focusing attention on the existing enterprise and how these resources may best be mobilized in the future:

Land

Deeded property and buildings		Leased Land	
Home Place	75 Acres	Pasture, south	2300 Acres
North Place	240 Acres	Pasture, north	600 Acres
	315 Acres		2900 Acres

By current loan practices of the Federal Land Bank it is the opinion of Lloyd Schmitt (formerly a regional manager for Federal Land Bank) that the loan value of the real property for agricultural purposes would be $55,000 or a total appraised value of $112,000. This figure takes into account the feedlot with a known capacity of 4500 head and the various buildings and cattle working facilities. A written statement can be secured from Lloyd Schmitt if it is desired.

Machinery and Equipment

The machinery and equipment resources are adequate for efficient management of a 4500 head feedlot and production of part of the required feed supply. The estimated quick sale value is $35,000.

Feed Supply

Feed resources already harvested and on which all production costs are paid are as follows:

1970 Corn silage --- 4800 Tons @ $8.00	$38,400
Wheat --- 2000 Bushel)	
Oats ---- 1200 Bushel) = 78 Tons @ $38.00	2,964
Alfalfa Hay --- 90 Tons @ $20.00	1,800
	$43,164

Human Resources

1. Owner-manager -- past experience, enthusiasm, willingness to learn and to grow into some new phases of the cattle business.

2. Owner-manager -- past experience, enthusiastic support for Number One.

3. Friend and Business Associate -- extensive cattle and financial experience with both a personal and business interest in the success of (X) Cattle Company.

4. Banker -- representing (X) Cattle Company's major money lender, who has a thorough understanding of cattle breeding and feeding, a distinct asset to sound development of any cattle enterprise.

Current Debt Load

The loans for which the (X) Cattle Company or its owners have responsibility are as follows:

	Type	Money Lender	Amount	Terms and Status
1.	Chattel all property	-	$120,000	9% - payment due 6-15-70, 8 year payout expected
2.	Real Estate, North Place	Federal Land Bank	17,000	7.5% payable anytime, due 1-1-70

Current Debt Load, Continued

	Type	Money Lender	Amount	Terms and Status
3.	Real Estate, Home Place	-	8,000	5% payable anytime, principal paid, $2636.36
4.	Personal	Westside Bank	5,000	9% - due 12-1-70
	TOTAL		$150,000	

Although it exceeds actual loan service requirements for the present debt, we suggest that $2,600 per month be allocated for this purpose with the plan of clearing all existing debt within eight years.

Previous History of Feeding Practices

The (X) Cattle Company has custom fed cattle by two main systems:

1. Feed and Yardage

   a. Feed charged out at cost plus:
      (1) $2.00 per Ton for chopping dry roughage
      (2) $2.00 per Ton for grinding grain
      (3) 5 percent charge for invisible loss due to shrink
      (4) Silage charged out at $8.00 per Ton on a wet basis

   b. Yardage charged at 7 cents per day.

2. Cost of gain

   a. 22 cents per pound, guaranteeing gain within agreed and reasonable limits. Cattle removed before 150 days in the lots are charged 23 cents per pound of gain.

Under both systems the company has agreed to the following conditions:

1. Guaranteed 98 percent livability from time of

delivery, without reference to the kind or source of cattle.

2. Charged all drugs and vet costs to the cattle owner.

3. A 25¢ per head service charge on all cattle for initial processing plus 25¢ per head when processed for sickness or any subsequent handling at the owner's request.

The company has also used pasture land in the area to graze yearlings and-or cows that were either owned or custom grazed. Some calves wintered in the feedlot were transported to the Browning area for summer grazing to be sold as yearling feeders or placed in the lots in the fall. The decision was made that the (X) Cattle Company would discontinue this practice after the 1970 grazing season and concentrate on more efficient use of land resources in the immediate area.

1970-71 Feeding and Grazing Commitments

The following commitments have been made by the company as of November 8, 1970, based on the charges described in the previous section:

1. Cost per pound of gain

   a. 1500 calves starting at 425 lbs. to gain 1.0 lb./day

   b. 400 calves starting at 420 lbs. to gain 1.5 lbs./day

   c. 200 calves starting at 420 lbs. to gain 2.0 lbs./day

   2100

2. Feed and Yardage

   a. 750 calves
   b. 300 calves

c. 200 calves
d. 100 calves
e. 140 yearlings
   1490

3. Grazing and cattle management commitments:

   a. 430 cows and bred heifers @ $3/month for grass plus charge for supplemental feed, profit division on any cows or calves sold.

   b. 180 cows @ $4/month plus charge for supplemental feed.

   c. 60 cows @ $4/month, pasture only, no responsibility for feed or management.

Background Information on Nutrition and Management Developed by Dr. Burkitt

The following notes and proposals were prepared to provide a firm common understanding of the costs, problems and opportunities for the (X) Cattle Company to reflect against what the company was already doing and be used as a reference point for recommendations and cash flow analysis. This section includes a summary table that is a valuable planning guide for _any_ cattle feeding enterprise.

The recommendations that are made all grow out of the analysis provided by this section of the study. Recommendations here are confined primarily to the feedlot operation, though cash analyses do reflect the income from grazing management commitments. The feedlot operation was considered the most critical segment of the total cattle business the company was conducting. Only limited comments and analyses are offered now on the use of the grazing land.

A. Estimated Gain costs for wintering calves

Table 1. Ingredient Prices ($/Ton) used in all calculations:

	Cost	Marked up Price[a]
Alfalfa Hay	$20.00	$25.00
Alfalfa Pellets	35.00	40.00
Corn Silage (wet)	8.00	9.60
Grain	33.00	38.00
Supplement	80.00	85.00
Salt	30.00	35.00

[a] "Mark-up" to cover storage, processing and invisible loss.

Table 2. Composition of Wintering Ration

	Lbs./Ton	Per Cent
Chopped Alfalfa	200	10.00
Corn Silage (wet Basis)	1200	60.00
Ground Grain	550	27.50
Supplement	50	2.50
	2000	100.00

Ration @ $20.84/Ton or $1.05/cwt.

Chopped Alfalfa	$1.25/cwt
Corn Silage (wet)	0.48/cwt
Ground Grain	1.90/cwt
Supplement	4.25/cwt

Table 3. Gain costs continued on next page

Table 3. Gain costs related to Calf Weights and Daily Gain

Calf Weight, lbs.

	350			450			550		
Daily Gain lbs.	Daily Feed lbs.	Daily Cost	Cost/lb. Gain	Daily Feed lbs.	Daily Cost	Cost/lb. Gain	Daily Feed lbs.	Daily Cost	Cost/lb. Gain
1.0	13.5	$.142	$.142	16.3	$.171	$.171	20.4	$.214	$.214
1.5	16.5	.173	.115	19.9	.209	.139	24.6	.248	.172
2.0	19.7	.196	.098	23.8	.250	.125	29.1	.306	.153

Feed and Yardage Cost/lb. of Gain (Yardage @ $0.17/Day)

Calf Wt., lbs. / Daily Gain	350	450	550
1.0	$.212	$.241	$.284
1.5	.162	.186	.219
2.0	.133	.160	.188

Above figures are based on energy requirements for maintenance and growth and average energy values for ingredients. Gains are dependent on ration consumption in indicated amounts and will vary with weather conditions and breeding background of calves. However, figures are reliable as a guide in estimating costs. Figures do not include interest, taxes, death loss and miscellaneous costs.

The ration used is 50% roughage, air dry (hay) basis, and will put growth (not fat) on calves. 350 lb. calves will probably not consume enough of this ration with silage to make 2.0 lbs. daily gain.

Except for replacement heifer calves, these figures above show the fallacy of limiting gain on wintering calves when the feeder owns the calves. With the demand that has developed for feedlot replacement cattle in spring months, wintering calves on a limited gain to back to grass as yearlings is a questionable practice particularly if pastures are suitable for cow-calf operations.

Figures above indicate dangers involved when calves are taken on a limited gain basis on set figure received per lb. of gain, particularly as calves get heavier or if calves come in heavy as weaned calves; furthermore, general experience shows there are more health hazards with cattle wintered on minimal gains.

B. Alternate Ration for Starting and Growing Calves:

This is a self-fed ration ideal for weaning and growing calves up to 500 to 550 pounds:

	Lbs./Ton	Percent
Alfalfa Pellets $40.00/ton	1500	75.0
Beet Pulp Pellets $43.00/ton	350	17.5
Pelleted Supplement $70.00	150	7.5
	2000	100.0

Estimated cost = $42.78/ton = $2.14/cwt.

Limited (not over one lb./day) coarse roughage is to be offered in addition to self-fed ration if in dry lot. Feed efficiency of 5 to 7 lbs./lb. of gain can be expected giving estimated feed costs of $0.17 to $0.150/lb. of gain. Feedlot facilities need not be ited up with this program after calves are started; however, calves <u>must</u> be started in a dry lot to insure good results. Small pastures and meadows can be used after calves are started, but "wide-area" grazing is not desirable.

C. Maximum use of Feedlot Facilities

Wintering calves (without finishing any in spring) will use facilities only 6 to 7 months with calves coming in in late October and November and December and going out in April and early May.

A planned finishing program would substantially extend feedlot use and could be based on purchasing heifer and/or steer calves in the fall to be finished for the June and July markets.

400 lb. heifer--Oct-June--240 days @ 2.25 lb. daily gain = 940 lbs.

450 lb. steer--Oct-June--240 days @ 2.50 lb. daily gain = 1050 lbs.

If feasible, 25% or more than number intended to finish should be purchased in fall. Calves should be pushed for maximum gain through the winter and the light end (excess number) be sold in spring.

With this program calves coming in in October and November should be ready for slaughter in June and July, generally high price months for slaughter cattle.

Purchase of yearling heifers in September for 120 day feeding period for sale as finished heifers in January would extend use of facilities. Yearling heifers would overlap with calves for space and capital during late October, November, December, and January; however, if capital (or contract calves) are available, calves could be grown on self-fed pelleted rations outlined above outside of the feedlot until yearling heifers were marketed. An example of this program follows:

650 lb. heifer -- 120 days @ 2.25 lbs. = 920 lbs.

Ration:

	Lbs./Ton	Per Cent	Cwt.
Chopped Alfalfa	200	10.0	$1.15
Corn Silage (wet)	250	12.5	.40
Ground Grain	1450	72.5	1.80
Supplement	100	5.0	4.00
	2000	100.0	

Cost = $33.40/Ton = $1.67/cwt.

Estimated 1 lb. gain for 9 to 10 lbs. ration.

Estimated 1 lb. gain for feed cost of $0.15 to $0.17, plus approximately $.03/lb. gain for yardage with yardage @ $.07/head/day.

650 lb. heifer @ 28.00 =	$182.00
270 lbs. gain @ 20.00 =	54.00
	$236.00

920 lbs. = $25.60/cwt. (does not include interest, taxes, death loss or miscellaneous costs)

The fall yearling heifer feeding program combined with calf wintering and finishing would utilize facilities September into July, leaving August for repairs and yard cleaning.

D. Estimated Feed Requirements Based on Above Calf Wintering Ration:

1. Per calf for 150 days

Daily gain, lbs.	1.0	1.5	2.0
Average Daily Ration, lbs.	17	21	25
cwt.	lbs.	lbs.	lbs.
$1.00 Alfalfa	255	315	375
.40 Corn Silage (wet)	1530	1890	2250
1.65 Grain	570	709	844
1.70 Barley Meal	128	158	188
4.00 Supplement	64	79	94
Estimated ration cost before processing	$22.81	$26.81	$33.63

2. An alternate program using a self-fed pelleted ration on calves for the first 90 days - requirements per calf:

Average daily consumption --- 15 lbs.

cwt.	lbs.
$2.00 Alfalfa Pellets	1012
2.15 Beet Pulp Pellets	236
3.50 Pelleted supplement	101

Ration cost/calf = $28.85

Estimated gain = 2.0 lbs./head/day

Note: For calves not on limited gain, for first 75 to 100 days, the self-fed pelleted ration will probably put on the fastest and lowest cost gains but still on a high roughage, high fiber ration.

3. Finishing yearling heifers - requirements per head for 120 feeding period:

Average daily consumption --- 20 lbs.

cwt.	lbs.
$1.00 Alfalfa	240
0.40 Corn Silage	300
1.65 Grain	1740
4.00 Supplement	120

Cost before processing/head = $37.11

Table 4. Summary Table Showing Financial and Feed Requirements and Net Yield from Different Cattle Feeding Systems

Feeding System	1	2
	Custom	
Description	$0.22/lb. heifer calf	feed & yard heifer calf
Days feeding	150	150
Daily gain	1.0	1.0
Initial weight	400	400
Final weight	550	550
Cost/cwt.	-	-
Cost/Head	-	-
Feed required, lbs.:		
Alfalfa	255	255
Silage	1530	1530
Grain	698	698
Suppl.	64	64
Salt	18	18
Feed Cost:		
No markup	$23.02	-
With markup	-	$26.83
Income from markup	-	$ 3.81
Other costs/head		
Yardage	$33.00(gain)	$10.50
Interest	-	-
Death loss	-	-
Taxes	-	-
Misc	-	-
TOTAL COSTS	-	-
Break even/cwt.	-	-
$10.00 profit/head	-	-
Income/head	$ 9.98	$14.31

3	4	5	6	7
Ownership (no limit on gain)		Ownership (no limit on gain)		
heifer calf	year heifer	Fall year heifer	self-fed pellets heifer calf	year heifer
150	120	120	90	150
2.0	2.5	2.5	2.0	2.5
400	700	650	400	580
700	1000	950	580	955
$ 34.00	$ 30.13	$ 28.00	$ 34.00	$ 33.89
$136.00	$210.91	$182.00	$136.00	$196.56
375	240	240	1012(pellets)	300
2250	300	300	236(beet pulp)	375
1032	1740	1740	-	2175
94	120	120	101	150
18	15	15	11	18
-	-	-	-	-
$ 39.40	$ 42.86	$ 42.86	$ 30.03	$ 53.57
$ 5.59	$ 5.52	$ 5.52	$ 3.40	$ 6.91
$ 10.50	$ 8.40	$ 8.40	$ 6.30	$ 10.50
$ 5.00	$ 6.00	$ 6.00	$ 5.00	$ 6.00
$ 3.75	$ 5.00	$ 5.00	$ 3.50	$ 5.00
$ 1.25	$ 1.00	$ 1.00	$ 0.75	$ 1.25
$ 5.00	$ 1.00	$ 5.00	$ 5.00	$ 1.00
$200.90	$275.17	$250.26	$186.58	$273.88
$ 28.70	$ 27.52	$ 26.34	$ 32.17	$ 28.68
$ 30.13	$ 28.52	$ 27.39	$ 33.89	$ 29.73
$ 26.09	$ 23.92	$ 23.92	$ 19.70	$ 27.41
$50.01			$47.11	

RECOMMENDATIONS FROM ENTERPRISE COMPARISON

Dr. Burkitt's analysis points out clearly the difference in profit opportunities and risks under the two major systems of custom feeding. The following conclusions can be drawn in favor of contracting based on feed plus yardage:

1. There is protection against the conditions which are beyond the control of the custom feeder but affect feeding costs, for example, weather, changes in feed prices, disease factors and feed value lost through death loss.
2. Cattle owners who contract on this basis are more likely to feed for higher gains, permitting the feeder to sell more feed.
3. There is an opportunity to realize a markup on feed ingredients as illustrated in the foregoing tables. This practice is <u>common</u> in the feed business and <u>logical</u> to account for costs of storage, processing and invisible loss in handling (shrink). Assuming a 100 percent fill of the company's lot for 150 days on wintering calves at 1.0 lb. per day under feed and yardage contracts, this markup yields $15,000 to the enterprise.

By contrast, under a cost of gain contract for a guaranteed 1.0 pound per day, if heavy calves are fed, the feeder makes money only during the first 30-40 percent of the feeding period and loses at the end. Only at higher levels of gain does this system of contracting represent a profitable venture; however, there are still the risks of weather, disease, feed price changes and loss of feed value in cattle death losses.

Table 4 shows the added profit opportunity available when owning cattle (Systems 3 - 7). If the indicated break-even price were achieved in selling, then the feeder has the same income from yardage plus feed as he would have under custom feeding. However, if the price is achieved that yields a $10.00/head profit over all feeding costs, then only half as many cattle are required to yield the same earnings as custom feeding system 2 (feed plus yardage). The prices used are conservative and could easily provide greater margins than those indicated in Table 4. The consultants offer the following recommendations:

1. That custom feeding be contracted on the basis of feed cost plus yardage at 7 cents per day. The mark-up on feed should be set at the suggested rates immediately to account for the items of cost previously indicated. Basic costs of ingredients must be charged out to customers at current prices for replacement rather than the company's purchase price before storage. In other words, the company is expected to take advantage of its storage of products when price changes are favorable.
2. Death loss should be at the owner's risk entirely. The feedlots that do guarantee livability do so only

on fresh ranch calves. This does not mean the company can afford to be careless because your reputation is a major competitive element. Death loss risk can be underscored by pointing out that a 1/2 percent loss from the guaranteed level can cost the company 50 cents per head; on a full lot basis that is over $2,000. If a death loss guarantee were to be retained for competitive purposes, we suggest it be on a revised basis proposed by the owner-manager, namely 98 percent livability after the first 30 days. It might be reasonable to extend this to after the first 42 days. Major stresses from microbial exchange, stress of processing, etc., have had time to take their toll, over which the company has only limited control.

3. That vet costs, medicine and cattle handling for initial processing and doctoring continue to be charged to the owner.

4. That the company continue to search for "overlapping" business that will fill the feedlot for a longer period of the year to reduce the heavy drain that fixed costs make during "down time" months upon the income derived from wintering programs. The system illustrating feeding of yearling heifers early followed by feeding heifer calves which were started on a self-fed ration is an example of maintaining cattle on feed for 10-11 months per year. It is probable that

yearling heifer feeding business might be attracted. If not on a custom basis, it does appear attractive for ownership, assuming sufficient operating capital. These heifers started in September would have cleared the lots by January before the weather is a major deterrent to gains or management and the market is still strong.

We recommend that the company attempt to negotiate with any of its customers who has yet to deliver calves for feeding in 1970-71 to place a pilot group of 100-200 on Dr. Burkitt's proposed self-feeding program. A successful trial of this system could add versatility to services the company can offer its clients. It has the advantage of a short run addition to feeding capacity because these calves would be on pasture (earning about 5¢/day yardage) for 90 days.

Developing competency in artificial insemination of heifers which have been developed in the feedlot can be an attractive business which can fill "down time" after calf wintering. This work requires that heifers reach a minimum of 600-650 pounds before A. I. exposure. Feeding and management programs to optimize A. I. results are more common now. Great attention is required. Heat detection and sound A. I. technician work are essential in building success.

5. Table 4 illustrates the increased returns which can be achieved in the cases where the feeder owns the cattle. Naturally this requires more working capital and assumption of greater risk. We strongly recommend that the company pursue custom feeding in the most efficient manner possible so that funds can be accumulated to begin purchase of feeder cattle. A formula could be developed whereby the company owned a percentage of the cattle they feed to pursue higher returns while custom feeding a certain fraction as a more secure income source. This enterprise change will depend on cooperative development between the company and its money lender.
6. That the company arrange to employ regularly the services of a consulting nutritionist to perform the following services:
    a) Ration formulation aimed at the least cost principle for a desired performance level.
    b) Advise on contracts for purchase of all feed ingredients.
    c) "Trouble shooting" on periodic feedlot problems that are nutritionally based.
    d) Advise on short-run selection of feeding enterprise alternatives.
    e) Routine visitation to bring the consultant's experience to the company.

This service represents business insurance to the owners, loan insurance to the money lender and someone both parties can consult with on the viability of the business. It is essential that the working relationship between the owner-operator and the consultant be one of total mutual respect, confidence, and honesty. There must be a high degree of willingness for the client to follow practical, tested advice. If the client chooses an unrecommended course, there must be a sound reason for doing so.

The costs of nutritional consulting services would approximate $300 per month plus the consultant's costs incurred in traveling to the company's premises. When a consultant travels to the same district to visit more than one client, it is customary to prorate costs.

It is important that the consultant be as free as possible of biases toward feed companies or special products. In effect, we do not recommend hiring a consultant who is an employee of a commercial feed company. Biases toward one line of feed products could cause undue expense and inflexibility to take advantage of short term good buys which the company cannot afford to miss. Furthermore, it is important to have someone who has adequate commercial experience. Though the annual cost may seem high, this can be recovered many times over with accurate decision making on ration formulation, purchases and feeding methods.

CASH FLOW STUDIES

These studies were performed for the following reasons:

1) To project the probably company performance for the 1970-71 feeding season to examine the company's current viability under existing contractual agreements. The only alteration made was to use the feed markup system proposed in this study rather than the company's previous policy.

2) To compare the economic viability of the alternative feeding systems summarized in Table 4. Systems 1 - 4 were projected. The combination of Systems 5 - 7 was considered well beyond current consideration even though it has the highest profit opportunity relative to continuous feedlot use.

3) To engage the company in a different approach to examining their own business.

4) To assist the company in developing documents and plans which the company and the money lender can use for cooperative planning and communication to build a more viable business.

The feed inventory on hand referred to under existing resources (silage, hay, and grain) was credited into the 1970-71 analysis. Fixed costs were either estimated or drawn from company experience. No personal living costs or wages to management were budgeted, thus conclusions on business viability must be drawn accordingly. There may be other costs to be added to make the analysis fully realistic as the company and the bank proceed with their joint planning. For example, it is not unlikely that some additional short term borrowing may be required to make the "start up" period before January 1, 1971 fully viable. However, orderly billing of customers should provide revenue shortly. The projected amount for loan services will actually handle a slightly higher debt load. It should be reiterated that the only cattle expense and income shown in this analysis were those already in the lots as "new starts" by November 8. There are some cattle in for short term fattening and other cattle yet to arrive, plus the prospects of longer grazing on part of the breeding cattle, all of which should return more revenue above expense and cause 1970-71 to look better than now projected.

One of the adjustments which the company and the bank will have to resolve is to restructure our theoretical cash flow on costs in order to:

1) Reflect timing of payment of such bills as cash leases, loan payments, costs or storage, production, etc.
2) Arrive at a plan for cash requirements to cover short term cows in income compared to expense.
3) Develop a plan for debt service that permits the company to make a major reduction in debt during periods of high income and initiate short term borrowing when required.

These cash flow studies represent an extension of summary Table 4 into annual enterprises involving the company's full lot capacity. Many combinations of numbers on each system could have been shown; however, we chose to illustrate each system independently. Those studies will yield a more conservative return than the simple multiplication from Table 4 because Table 4 does not take into account servicing previous debt, only the debt required to buy and feed the animal until it is sold. Certain conclusions become more clear when examining these studies:

1) Custom feeding calves for 1.0 lb. of gain @ 22¢ per lb. is a most unprofitable risky enterprise. Any unusual death losses would only further reduce net returns.
2) The adequate use of grazing for breeding cattle becomes a major saving feature in gross returns.
3) Under the 150 day wintering contracts the "down time" takes a heavy toll of cash requirements to cover fixed costs.

GENERAL CONCLUSION

In our opinion under present circumstances the (X) Cattle Company can become an increasingly viable business enterprise within the framework of the recommendations offered in this report. It will require vigorous effort on the part of the company to build a stronger financial position. This building process can only develop properly in an environment of adequate communication, mutual respect and confidence between the company and its money lender. Sound management decision making and effective action is vital to success.

APPENDIX II

(X) CATTLE COMPANY
FINANCIAL STATEMENTS
JUNE 30, 1971

DOUGLAS F. EIGEMAN & COMPANY
Certified Public Accountants
Post Office Box 2749
GREAT FALLS, MONTANA 59401

IDAY VILLAGE

PHONE 453-2463

August 3, 1971

The accompanying balance sheet of (X) Cattle Company, as of June 30, 1971, and the related statement of income and retained earnings for the period then ended were not audited by us and we express no opinion on them.

Douglas F. Eigeman & Co.

(X) CATTLE COMPANY
BALANCE SHEET
JUNE 30, 1971

(Prepared Without Audit)

ASSETS

Current Assets:		
Cash in the Bank		179.58
Accounts Receivable		13,652.00
Inventories		84,744.00
Prepaid Organizational Expense		55.29
Prepaid Loan Fee		165.63
Total Current Assets		98,796.50
Investments:		
Stock-Farm Loan Associations	920.00	
Stock-Farm Co-operatives	3,692.60	
Total Investments		4,612.60
Fixed Assets:		
Land, Buildings, Machinery and Equipment	175,142.56	
Less Accumulated Depreciation	55,485.60	
Total Fixed Assets		119,656.96
		223,066.06

LIABILITIES AND CAPITAL

Current Liabilities:		
Accounts Payable		14,730.00
Note Payable - [illegible] F. National		140,400.00
Mortgage Payable - Current		2,800.00
Payroll Taxes Payable		690.18
Accrued Property Taxes Payable		175.00
Accrued Interest Payable		1,939.38
Due Officers		77.75
Total Current Liabilities		160,812.31
Fixed Liabilities:		
Mortgage Payable		23,058.37
Capital:		
Capital Stock Issued	75,700.00	
Retained Earnings - Deficit	(36,504.62)	
Total Capital		39,195.38
		223,066.06

(X) CATTLE COMPANY
BALANCE SHEET SCHEDULE
JUNE 30, 1971

(Prepared Without Audit)

Inventories:		
Growing Crops	77,918.00	
Less Cost to Harvest	11,520.00	66,398.00
Sileage		11,200.00
Barley		1,012.00
Hay		1,560.00
Straw		1,020.00
Oats		518.00
Supplements		756.00
Seed		1,350.00
Vet Supplies		930.00
		84,744.00

(X) CATTLE COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1971

(Prepared Without Audit)

ales		118,884.76
ess Cost of Sales:		
nventory - January	46,400.40	
urchases	95,590.92	
	141,991.32	
nventory - December	84,744.00	57,247.32
		61,637.44
ther Income:		
atronage Dividends		1,061.40
		62,698.84
xpenses:		
abor	11,618.10	
eed	78.00	
epairs	4,091.76	
upplies	1,463.05	
reeding Fees	3,280.00	
eterinary	746.45	
as, Oil & Grease	7,884.88	
ounty Property Taxes	174.97	
arm Vehicle Licenses & Taxes	344.75	
mployers Social Security Taxes	345.09	
nsurance	2,219.90	
nterest	7,340.87	
lectricity	2,098.13	
elephone	171.97	
egal	60.00	
onsulting Fee	1,400.00	
ank Charges	40.07	
rucking	3,119.23	
ravel Expense	80.00	
oard for Labor	738.12	
ease	725.00	
mortized Organizational Expense	55.29	
mortized Loan Fee	2.62	
epreciation	4,860.00	
iscellaneous	491.13	53,429.38
		9,269.46
etained Earnings:		
alance - January 1, 1971 (Deficit)		(45,774.08)
alance - June 30, 1971 (Deficit)		(36,504.62)

SMALL BUSINESS ADMINISTRATION

APPLICATION FOR LOAN

Before Completing This Form, Read Instructions On SBA Form 4A

FOR SBA USE ONLY	
CHECK APPLICABLE SQUARE ☐ Original Loan ☐ Refunding Loan	☐ Additional Loan No. ☐ No. 2 ☐ No.
Loan Case No.	Type of Loan
Bank Participant	Exp. Increase or De
Date Accepted	Date of this report
Business (a) (b) (c) (d)	
Summary of Credit Report:	

1. APPLICANT (Show official name without abbreviations unless an abbreviation is a part of the official name. For proprietor or partnership, show name(s) followed by d/b/a/ and trade name used, if any)

Name: -(X)- Cattle Company			
Street:	City: Vaughn		
County: Cascade	State: Montana	ZIP Code: 59487	Tele. No. 965-3261
Employer's I.D. Number: 81-0281791 A	Date of Application: 6-1-71	Amount of Loan Requested: 160,000	

2. TYPE OF BUSINESS (Attach history of business) (Include Principal's Management Experience) — Date Established: 1962

Present Management in Control Since: 1962 — Franchise ☐ Yes ☒ No — ☒ Existing Business ☐ New Business

Marital Status (If not a corporation, give name of spouse for each married partner or owner):

3. NUMBER OF EMPLOYEES (Including subsidiaries and affiliates)
At Time of Application 6 — If Loan is Approved 9

4. LOAN REQUEST * - Mach repair. - possible feed purchase - Seeds.

	Requested	Recommended	Code
Land Acquisition	$	$	☐
New Building or plant construction	$	$	
Plant relocation and acquisition	$	$	☐
Plant expansion and repair	$	$	
Debt Payment*	$ 120,000	$	☐
* Acquisition and/or repair of machinery and equipment	$ 10,000	$	
Working Capital Inventory	$	$	☐
Working Capital All Other	$ 30,000	$	
Acquisition of all or part of an existing business	$	$	☐
Totals	$ 160,000	$	
	Maturity 8 yrs. 10 yr Amort. Yrs.	Maturity Yrs.	

*Details To Whom Payable	Amount Orig.	Amount As of B/S Date	Dates Orig.	Dates Mat.	Security	Repayment Terms	Delinquency
Great Falls Nat'l	$ 150,000	$ 131,900	10-70	6-71	Second S/A	$ Renewals	

5. PREVIOUS GOVERNMENT FINANCING (List assistance received or requested and refused in past five years and any pending applications).

Name of Agency or Department (Including SBA)	Amount Approved Or Requested	Date of Approval or Request	Present Balance	Status (Current, Delinq. Maturity Acceler.)
None				

6. MANAGEMENT (1) Names of all proprietors, partners, officers, and directors and their annual compensation, including salaries, bonuses, fees, with etc. (complete all columns). (2) Names and compensation of all employees receiving in excess of $17,500 annually. (3) Five largest stockholders wise listed (complete all columns except annual compensation). Signed and dated personal balance sheets coinciding with net worth shown below submitted for proprietors, each partner and each stockholder with 20 percent or more ownership.

First and Maiden Names in Full and Last Name	Date and Place of Birth	U.S. Citizen?	% Ownership	Office Held	Annual Compensation	Net Worth Outside of Applicant	Life Insurance Which Is Assignable *	Soc. Sec. Number
[illegible]	11-6-18 Livingston, Mt.	Yes	95.9%	Pres.	None	178,390		516-4
[illegible]	5-7-41 Great Falls, Mt.	Yes	4.0%	Sec.	3,600.00	7,000		516-4

***Life insurance on owner (s) or principal (s) will be required ONLY when specifically included as a condition of an approved loan.**

7. NAMES OF ATTORNEYS, ACCOUNTANTS, AND OTHER PARTIES. The names of all attorneys, accountants, appraisers, agents, and all other parti (whether individuals, partnerships, associations or corporations) engaged by or on behalf of the applicant (whether on a salary, retainer or fee basis regardless of the amount of compensation) for the purpose of rendering professional or other services of any nature whatever to applicant, in connectic with the preparation or presentation of this application or with any loan to applicant which SBA may make, or in which SBA may participate, as a resu of this application, or such loan or participation; and all fees or other charges or compensation paid or to be paid therefor or for any purpose in conne tion with this application whether in money or other property of any kind whatever, by or for the account of the applicant, together with a description such services rendered or to be rendered, are as follows:

Name and Address (Include ZIP Code)	Description of Services Rendered and to be Rendered	*Total Compensation Agreed to be Paid	*Compensation Already Paid
[illegible], CPA P.O. Box 2749 [illegible] Falls, Montana 59403	Aid to completing Application Form	None	None

*Subject to SBA approval. Compensation contingent upon loan approval is not allowed. In the event of loan approval SBA form for describing services performed or to be performed must be executed by applicant, and the parties, if any, listed above. Applicant should immediately notify SBA of any change or addition to the information set forth above.

IT IS NOT REQUIRED THAT AN APPLICANT EMPLOY REPRESENTATIVES IN ORDER TO FILE A LOAN APPLICATION WITH SBA.

APPLICANT SHOULD IMMEDIATELY NOTIFY SBA OF ANY CHANGE IN OR ADDITION TO THE INFORMATION SET FORTH ABOVE.

BALANCE SHEET AS OF December 31, 19 70 FISCAL YEAR ENDS December 31, 1970

(Statement must be dated within 60 days of the filing of this application. Omit $.00)
(In addition to the balance sheet prescribed below, submit in duplicate, balance sheets and operating statements for the past three fiscal years. See Instruction Sheet)

Audited or Unaudited: Unaudited
Prepared By: Douglas F. Eigeman & Co.

ASSETS		THESE COLUMNS NOT TO BE USED BY APPLICANT Supplemental as of	Dr	Cr	Pro Forma
Cash on Hand and in Banks	$				$
*Notes Receivable					
Accounts Receivable . $					
Less Reserve for Doubtful Accounts					
Inventories (How valued Cost ☐ or Market ☐)					
Finished $					
Stock in Process					
Raw Material					
*Other Current Assets					
TOTAL CURRENT ASSETS	$				$
Cost Depr.					
Land					
Buildings					
Mach & Equip					
F & F					
Autos & Trucks					
NET FIXED ASSETS (Cost Less Depr.)	$				$
*Due from Affiliates or Subsidiaries					
*Due from Officers, Directors, and Stockholders					
Life Insurance (Cash Surrender Value)					
*Other Assets					
SCHEDULED ~~TOTAL ASSETS~~	$				$
LIABILITIES					
Accounts Payable for Merchandise	$				$
*Notes Payable Payments Due Within One Year:					
*To Banks					
*For Merchandise					
*To Officers, Directors and Stockholders					
*To Others					
*Mortgages Payable-Payments Due Within One Year					
*Contracts Payable-Payments Due Within One Year					
*Accounts Due Officers or Stockholders					
Accounts and *Notes Due Affiliates					
Income Taxes					
Withholding and Other Taxes					
*Other Accruals					
*Other Current Liabilities					
SBA Loan - Payments Due Within One Year					
TOTAL CURRENT LIABILITIES	$				$
*Notes Payable - Payments Due After One Year					
*Mortgages Payable Payments Due After One Year					
*Contracts Payable - Payments Due After One Year					
SBA Loan - Payments Due After One Year					
*Other Liabilities					
TOTAL LIABILITIES	$				$
Capital Stock Outstanding $					
Earned Surplus					
Capital Surplus					
Capital Account (If individual or partnership)					
TOTAL LIABILITIES AND NET WORTH	$				$
Working Capital: C/A Minus C/L	$				$

*ITEMIZE ON A SEPARATE SHEET ALL ITEMS MARKED WITH AN ASTERISK.

CONTINGENT LIABILITIES: Yes ☐ No ☒ (Please check) If yes, accounts or notes receivable discounted or sold with endorsement or guarantee and all other contingent liabilities, including terms of any leases, should be explained on a separate sheet. Also, describe any pending or imminent litigation.

c) TERMS OF SALE:

Aging	Accounts Receivable	Accounts Payable
Under 30 days	$ 27,192.87	$ 10,974.96
30 59 days		
60 89 days		
90 - 119 days		
120 days & over		
Uncollectible		
Totals	$ 27,192.87	$ 10,974.96

Date of Last Physical Inventory: 12-31-70
Dollar Amount of obsolete inventory $ None
Income tax shown above is due for the year(s): None
Income tax returns audited by Internal Revenue through year: Never Audited
Withholding taxes shown above are due for the period: 4th Qtr 1970

d) Please list all Contracts, Notes and Mortgages Payable and reconcile with figures on Balance Sheet (Indicate by an * items to be paid from loan proceeds.)

To Whom Payable	Original Amount	Original Date	Present Balance	Rate of Interest	Maturity	Monthly Payment	Security
eat Falls National Bank	150,000	10-70	131,900	9%	Renewals	None	Real Estat Equipment
Wilson	15,818	12-67	7,909				Real Estat
eral Land Bank	18,400	1-69	18,109				Real Estat

. CONDENSED COMPARATIVE STATEMENTS OF SALES, PROFIT OR LOSS, ETC. (Attach detailed profit and loss statements) (Your income tax returns should be of help to you in giving this information) If new venture attach detailed projection for first and second years

If a corporation, use this block:	19	19	19	19	Current Yr. To Dat
Net sales (Gross sales less returns & allowances)	$	$	$	$	$
Primary Activity					
Secondary Activity					
Depreciation					
Income taxes		S C H	E D U L E D		
Compensation of officers (Included in expenses)					
Net profit (After depreciation & income taxes).					
Dividends paid					

If a partnership or proprietorship, use this block:	19	19	19	19	Current Yr. To Dat
Net sales (Gross sales less returns & allowances)	$	$	$	$	$
Primary Activity					
Secondary Activity					
Depreciation					
Withdrawals (For income taxes)					
Personal withdrawals by owner or partners .					
Net profit (After depreciation and withdrawals)*.					
*Includes: Nonoperating Income of	$	$	$	$	$
Nonoperating Expense of	$	$	$	$	$

) Annual Fixed Obligations Including SBA Loan:

First Year $ ____ Second Year $ ____ Third Year $ ____

Fourth Year $ ____ Fifth Year $ ____

THIS BLOCK FOR SBA USE ONLY

Field Visit Made ☐ Yes ☐ No | CD

Was application discussed with Participating Bank or, if Direc Loan, Bank of Deposit? ☐ Yes ☐ No

) Surplus Analysis (For Corporation) or Net Worth Reconciliation (For Proprietorship or Partnership)

	19	19	19	19	Current Yr. To Da
Beginning Surplus or Net Worth	$	$	$	$	$
Profit or Loss					
Dividends					
Withdrawals					
Paid In		S C H E	U L E D		
Revaluation of Assets					
Other Additions (Explain)					
Other Charges (Explain)					
Net Change (Increase or decrease)					
Ending					

. SUMMARY OF COLLATERAL OFFERED BY APPLICANT AS SECURITY FOR LOAN — Supply Details on SBA Form 4, Schedule A.

Collateral Now Owned	Cost	Net Book Value (Cost Less Depreciation)	Applicant's Appraised Value	NOT TO BE USED BY APPLICANT Appraised Value	
Land and improvements	$ 37,141.00	$ 37,141.00	$ 45,000.00	$	$
Buildings	47,079.48	30,676.20	35,000.00		
Machinery & equipment	90,922.08	56,699.76	60,000.00		
Automotive Equipment					
Furniture and fixtures					
Other					
TOTAL NOW OWNED	$ 175,142.56	$ 124,516.96	$ 140,000.00	$	$
To be Acquired (Complete 1st and 2nd columns only)	10,000.00	10,000.00			
TOTAL OFFERED	$ 185,142.56	$ 134,516.96	$ 140,000.00	$	$
Existing Liens Not to be Paid off From SBA Loan $ 26,018.53				($)	($
				$	$

ATTACH PHOTOGRAPH OF PROPERTY IF AVAILABLE

1. AS ADDITIONAL SECURITY, PAYMENT OF THE LOAN WILL BE GUARANTEED BY.

Name and Address (Include ZIP Code and Social Security Number of Guarantors) (Each principal must submit a signed personal balance sheet as of the same date as the applicant's sheet)	Net Worth Outside Of Interest In Applicant Company
	$

2. SUBSIDIARIES AND AFFILIATES List on an attached sheet the names and addresses of (1) all concerns that may be regarded as subsidiaries of the applicant, including concerns in which the applicant holds a controlling (but not necessarily a majority) interest, and (2) all other concerns that are in any way affiliated, by stock ownership or otherwise, with the applicant. The applicant should comment briefly regarding the trade relationship between the applicant and such subsidiaries or affilates, if any, and if the applicant has no subsidiary or affiliate, a statement to this effect should be made. Balance sheets and operating statements must be submitted for all subsidiaries and affiliates.

PURCHASE AND SALES RELATIONS WITH OTHERS Does applicant buy from, sell to, or use the services of, any concern in which an officer, director, large stockholder, or partner of the applicant has a substantial interest? ☐ Yes ☒ No If "Yes" give names of such officers, directors, stockholders, and partners, and names of any such concern on attached sheet.

RECEIVERSHIP- BANKRUPTCY Has applicant or any officer of the applicant or affiliates or any other concern with which such officer has been connected ever been in receivership or adjudicated a bankrupt. ☐ Yes ☒ No. If "Yes" give names and details on separate sheet.

3. RECENT EFFORTS TO OBTAIN CREDIT (For Direct Loan Applicants Only): The SBA is authorized to make loans to business enterprises only when the financial assistance is not otherwise available on reasonable terms. SBA is also empowered to make loans in cooperation with banks or other lending institutions through agreements to participate on an immediate or guaranty basis. Therefore, applicant must furnish the information required below regarding efforts made within 60 days preceding the filing of this application to obtain credit from banks of other sources. Letters declining to extend credit as well as declining to participate with SBA must be obtained from the following lending institutions: (a) The applicant's bank of account; and (b) if the amount of the loan applied for is in excess of the legal lending limit of the applicant's bank or in excess of the amount that the bank normally lends to any one borrower, *then a refusal from a correspondent bank or from any other lending institution whose lending capacity is adequate to cover the loan applied for* (c) letters from two banks are required if applicant is located in a city with a population in excess of 200,000. These letters must contain date of application, amount of loan requested and reasons for refusal, and be attached to this application.

CREDIT INFORMATION Applicant expressly authorizes disclosure of all information submitted in connection with this application and any resulting loan to the financial institution agreeing below to participate in such loan or, if none, to its bank(s) of account and (Insert name of other financial institution if desired) ______

PARTICIPATION Will any lending institution participate with SBA in the loan requested? ☒ Yes ☐ No. If "Yes" institution shall execute Application For Participation or Guaranty Agreement at bottom of page.

4. DISCLOSURE OF SPECIAL INFORMATION REGARDING PRINCIPALS: (a) List below the names of any SBA employees or SBA advisory board members who are related by blood, marriage or adoption to, or who have any present or have had any past, direct or indirect, financial interest in or in association with, the applicant, or any of its partners, officers, directors or principal stockholders (such interest to include any direct or indirect financial interest in any other business entity or enterprise); (b) When the proprietor, or any partner, officer, director, or person who holds 10 percent or more of the applicant's stock is an investor in a licensed Small Business Investment Company, or a proposed investor in an SBIC which has filed for a license, detailed information shall be submitted with this application; and (c) Likewise, if any person identified in (b) above, or their spouse, is an employee of the U. S Government (including members of the armed forces), detailed information shall be submitted with this application. (Use separate sheet if necessary).

If none, check here: ☒ (a) ☒ (b) ☒ (c)

Name and Address(Include ZIP Code)	Details of Relationship or Interest

5. AGREEMENT OF NONEMPLOYMENT OF SBA PERSONNEL. In consideration of the making by SBA to applicant of all or any part of the loan applied for in this application, applicant hereby agrees with SBA that applicant will not, for a period of two years after disbursement by SBA to applicant of said loan, or any part thereof, employ or tender any office or employment to, or retain for professional services, any person who, on the date of such disbursement, or within one year prior to said date, (a) shall have served as an officer, attorney, agent, or employee of SBA and (b) as such, shall have occupied a position or engaged in activities which SBA shall have determined, or may determine, involve discretion with respect to the granting of assistance under the Small Business Act, or said Act as it may be amended from time to time.

6. CERTIFICATION, I hereby certify that:

(a) The Applicant has received and read SBA Form 394 and has not paid or incurred any obligation to pay, directly or indirectly, any fee or other compensation for obtaining the loan hereby applied for.

(b) The applicant has not paid or incurred any obligation to pay to any Government employee or special Government employee any fee, gratuity or anything of value for obtaining the assistance hereby applied for. If such fee, gratuity, etc. has been solicited by any such employee, the applicant agrees to report such information to the Office of Security and Investigations, SBA, 1441 L Street, N. W., Washington, D. C. 20416.

(c) All information contained above and in exhibits attached hereto are true and complete to the best knowledge and belief of the applicant and are submitted for the purpose of inducing SBA to grant a loan or to participate in a loan by a bank or other lending institution to applicant. Whether or not the loan herein applied for is approved, applicant agrees to pay or reimburse SBA for the cost of any surveys, title or mortgage examinations, appraisals, etc., performed by non-SBA personnel with consent of applicant.

(d) The applicant hereby covenants, promises, agrees and gives herein the Assurance as required by 13 CFR 112.8 and CFR 113.4 that in connection with any loan to applicant which SBA may make, or in which SBA may participate or guaranty as a result of this application, it will comply with the requirements of Parts 112 and 113 of SBA Regulations and Title VI of Civil Rights Act of 1964 to the extent that said Parts 112 and 113 are applicable to such financial assistance, and further agrees that in the event it fails to comply with said applicable Parts 112 and 113, SBA may call, cancel, terminate, accelerate repayment or suspend in whole or in part the financial assistance provided or to be provided or to be provided by SBA, and that SBA, or the United States Government may take any other action that may be deemed necessary or appropriate to effectuate the nondiscrimination requirements in said Parts 112 and 113, including the right to seek judicial enforcement of the terms of this ASSURANCE OF COMPLIANCE. These requirements prohibit discrimination on the grounds of race, color or national origin by recipients of federal financial assistance, including but not limited to employment practices, and require the submission of appropriate reports and access to books and records; these requirements are applicable to all transferees and successors in interest.

Corporate Seal

Attest ______
(Title)

Cattle Company
(Individual, general partner, trade name or corporation)

By ______

Title President

Date Signed: 6-1, 1971

Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security, for the purpose of obtaining for himself or for an applicant any loan, or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the SBA, or for the purpose of obtaining money, property, or anything of value, under the Small Business Act, as amended, shall be punished under Section 16(a) of the Small Business Act, as amended, by a fine of not more than $5,000 or by imprisonment for not more than two years, or both.

(For use only by bank or other financial institution)

Bank Transit No.

APPLICATION FOR PARTICIPATION OR GUARANTY AGREEMENT

We propose to make a (check one):
- ☐ Guaranteed loan Bank Share ______ %, SBA Share ______ %.
- ☐ Immediate participation loan with bank to make and service Bank Share ______ %, SBA Share ______ %.
- ☐ Immediate participation loan with SBA to make and service Bank Share ______ %, SBA Share ______ %.

to the Applicant named on page 1 of this application. We hereby make application for the type of participation agreement checked above subject to the following loan conditions (use separate sheet if necessary):

Interest to be payable monthly at the annual rate of ______ % on the unpaid principal amount of the loan advanced by the Bank.

Without the participation of SBA to the extent applied for we would not be willing to make this loan. In our opinion, the financial assistance applied for is not otherwise available on reasonable terms.

______
(Name and address of bank Include ZIP Code)

Date ______, 19 ____

______
(Authorized officer)

Bush

Summary of Collateral

OFFERED BY APPLICANT AS SECURITY FOR LOAN AND SBA APPRAISER'S VALUATION REPORT

Name and Address of Applicant: (Include Zip Code) Prem[illegible] Cattle Company	EMPLOYER ID NO. 81-0281791 A
Vaughn, Montana 59487	SBA LOAN NO.

IMPORTANT INSTRUCTIONS FOR PREPARING THE LISTING OF COLLATERAL OFFERED AS SECURITY FOR LOAN

Page 1. Summary Of Collateral Offered By Applicant As Security For The Loan: This is a summarization of the detailed listing on SBA Form 4, Schedule A. If collateral is to be acquired, with proceeds of loan describe the collateral in detail *on an attachment* to Schedule A with the notation "To be acquired".

Show exact cost. If assets were acquired from a predecessor company at a price other than cost less depreciation.

The figures to be entered in the net book value column must agree with the figures shown in the balance sheet, on page 2 of the application, except for the assets, if any, not being offered as collateral and non-business assets, if any, which are being offered to secure guarantees.

If a recent appraisal has been made of the collateral offered, it should be submitted with the application.

Any leases on land and buildings must be described, giving date and term of lease, rental, name and address of owner.

Page 2. Real Estate:

Item 1 - Land And Improvements: (a) legal description from deed on the land location city where deed is recorded. Book and page numbers of Official Records. Describe the land improvements such as paving, utilities, fence, etc. (b) cost of land when purchased.

Item 2 - Buildings: (a) general description, describe each building or structure on the land. Include size, type of construction, number of stories, date erected, use and condition. (b) amount of taxes and the assessed value from tax bills. (c) total amount of income received by owner from rental of the described property. (d) cost of building when purchased.

INADEQUATE OR POORLY PREPARED LOAN APPLICATION AND LISTING OF COLLATERAL ON PAGE 3 WILL CAUSE DELAY IN THE PROCESSING OF LOAN APPLICATIONS.

Page 3 - It is most **IMPORTANT** that applicants make an **ACTUAL PHYSICAL INVENTORY OF THE EQUIPMENT** being offered as collateral. **DO NOT TAKE FROM BOOK RECORDS.** Actually list each in accordance with the classification, e.g.: 1. Machinery and Equipment: 2. Automotive Equipment; 3. Office furniture and equipment; 4. Other—jigs, dies, fixtures, airplanes, etc.

Page 4 - Is a continuation of Equipment being offered.
Group items in accordance with the above classifications

Show: manufacturer or make, model and serial numbers, size, year, whether purchased new, used, or rebuilt.
BE SURE ITEMS LISTED CAN BE **READILY INSPECTED** BY SBA APPRAISERS.

SUMMARY

Item	Cost	Net Book Value	Not to be used by applicant
1. Land and land improvements	37,141.00	37,141.00	
2. Buildings	47,079.48	30,676.20	
3. Machinery and Equipment	90,922.08	56,699.76	
4. Automotive Equipment			
5. Office furniture and equipment			
6. Other			
7. Total	175,142.56	124,516.96	
8. Real and chattel mortgages (Not to be paid from SBA loan req.) Attach details	X X X X		
9. Equity	X X X X		
10. To be acquired (Cost)	10,000.00	X X X X	
11. Total	185,142.56	124,516.96	

THE APPRAISER CERTIFIES that he has personally and thoroughly inspected the collateral as listed in this Report. Furthermore, as of 6-1-71 the market values shown in the above Summary are fair and reasonable as of that date. Additional comments are attached to this Report.

SBA Appraiser's Signature

6-1-71
Date of Report

BIBLIOGRAPHY

"Agribusiness Report," Miller Publishing Company, Minneapolis, December 29, 1969.

"Agribusiness Report," Miller Publishing Company, Minneapolis, January 12, 1970.

"An Economic Analysis of the Market Factors Affecting Slaughtering and Fresh Meat Marketing in the Great Falls, Montana Area," Transportation Research and Marketing, Littleton, Colorado, April, 1969.

"Animal Industry," Superintendent of Documents, Washington, D.C., May, 1969.

AN INTERREGIONAL ANALYSIS OF THE FEED BEEF ECONOMY, U. S. Department of Agriculture Economic Research Service, Oklahoma and Texas Agricultural Experiment Stations, April, 1966.

"Business Conditions," Federal Reserve Bank of Chicago, October, 1969.

"Business Conditions," Federal Reserve Bank of Chicago, January, 1970.

"Business Conditions," Federal Reserve Bank of Chicago, February, 1970.

"Business Conditions," Federal Reserve Bank of Chicago, March, 1970.

"Business Review," Federal Reserve Bank of Dallas, July, 1969.

"Business Review," Federal Reserve Bank of Dallas, September, 1969.

CHARACTERISTICS OF BEEF CATTLE FEEDLOTS, Economic Research Service, U. S. Department of Agriculture, Marketing Research Report No. 840.

"Costs and Economies of Size in Texas-Oklahoma Cattle Feedlot Operations," Texas A&M University, May, 1969.

"Costs and Returns of Cow-Calf Ranch," Cooperative Extension Service, Montana State University, Bozeman, March, 1969.

"Econometric Analysis of the Cattle Cycle in the United States," Josef Gruber and Earl O. Heady, Iowa State University, Ames, July, 1968.

"Economic Significance of a Vertically Integrated Cattle Feeding, Slaughter and Marketing Cooperative for Montana," Leslie E. Chalmers, Ph.D., Bozeman, Montana.

FARM BORROWING IN THE MIDWEST, Federal Reserve Bank of Chicago, 1966.

"Farm Management," Superintendent of Documents, Washington, D.C., March, 1969.

FINANCING MODERN AGRICULTURE: BANKING'S PROBLEMS AND CHALLENGES, Federal Reserve Bank of Kansas City, May, 1969.

"Marketing Aids for the Cattle Feeder," Economic Research Service, U. S. Department of Agriculture, January, 1969.

"Monthly Review," Federal Reserve Bank of Kansas City, January-August, 1970.

"The Cattle Feeding Industry in Montana," Kenneth Mortag, Montana Bank, Great Falls, Montana, March, 1962.

"The Texas-Oklahoma Cattle Feeding Industry," Texas A&M University, December, 1968.

TWO FACES OF DEBT, Federal Reserve Bank of Chicago, February, 1969.

"Wintering Calves on Contract," Robert Bucher, Montana Cooperative Extension Service, Montana State University, Bozeman, Montana, October, 1968.